

Message Text

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ACTION EA-09

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03
NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 FEA-01
ERDA-05 AID-05 CEA-01 CIEP-01 COME-00 EB-08 FPC-01
INT-05 OMB-01 OES-06 STR-04 TRSE-00 ACDA-07 NEA-10
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R 260757Z JAN 77
FM AMEMBASSY TOKYO
TO USLO PEKING
INFO SECSTATE WASHDC 5029
AMCONSUL HONG KONG
AMEMBASSY TAIPEI

C O N F I D E N T I A L SECTION 1 OF 2 TOKYO 1176

E.O. 11652: GDS
TAGS: ENRG ETRD CH JA
SUBJECT: PRC/JAPAN OIL TRADE PROSPECTS

REF: (A) PEKING 2631; (B) HONG KONG 0184

1. SUMMARY. INDICATIONS HERE ARE THAT INCREASES IN JAPANESE IMPORTS OF CHINESE CRUDE ARE LIKELY TO BE NOMINAL OVER THE NEXT THREE YEARS, BUT AFTER THAT INCREASED REFINERY CAPACITY COULD RAISE CHINESE SALES TO 13 MILLION TONS PER YEAR, ABOUT 5 PERCENT OF JAPAN'S TOTAL PROJECTED IMPORTS. GOJ IS LIKELY TO LOOK FAVORABLY ON SUCH INCREASES AS BEING IN LINE WITH GENERAL POLICY OF DIVERSIFYING SOURCES. END SUMMARY.

2. FOR THE NEXT TWO OR THREE YEARS AT LEAST, IT SEEMS UNLIKELY TO US THAT JAPANESE IMPORTS OF CHINESE CRUDE WILL INCREASE MORE THAN MINIMALLY. TWO FACTORS SEEM TO INDICATE THIS PROSPECT; ONE IS THE PACE OF JAPANESE RECOVERY FROM ITS RECESSION. THE OTHER IS REFINERY CAPACITY.

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3. MOST ECONOMIC FORECASTS PREDICT THAT THE GROWTH IN JAPAN'S GNP THROUGH 1985 WILL AVERAGE ABOUT 6 PERCENT. THE ESTIMATE FOR FY 1978 (APRIL 1977 TO MARCH 1978) ALSO PROJECTS ABOUT 6 PERCENT, INCLUDING THE FACTORING IN OF A 0.5 PERCENT DROP AS A RESULT OF THE DOHA PRICE INCREASES. NO ONE HERE IS PREDICTING WHAT THE ULTIMATE COST OF THE OIL PRICE INCREASES WILL BE, BUT FOR THE

TIME BEING WE ARE ASSUMING THAT THE FORECASTERS ARE REASONABLY ACCURATE IN ESTIMATING ONLY A 0.5 PERCENT DECLINE. ASSUMING UNITARY ELASTICITY OF DEMAND BETWEEN GNP GROWTH AND POWER PRODUCTION, WE PROJECT AN INCREASE IN DEMAND FOR CHINESE OIL, MOST OF WHICH IS USED BY THE POWER INDUSTRY EITHER AS REFINED FUEL OIL C, OR DIRECTLY BURNED, OF NO MORE THAN 6 PERCENT PER YEAR.

4. THE OTHER CONSTRAINT ON INCREASED IMPORTS IN THE SHORT TERM IS REFINERY CAPACITY, WHICH IS JUST ABOUT AT ITS LIMIT FOR CHINESE-TYPE CRUDE. ANY EARLY INCREASE IN IMPORTS FROM CHINA IN EXCESS OF NORMAL (6 PERCENT) GROWTH WOULD BE AT THE EXPENSE OF SIMILAR INDONESIAN CRUDE. GIVEN JAPAN'S GREATER DEPENDENCE ON INDONESIA, NOT ONLY AS A SOURCE FOR OIL, (10 PERCENT OF IMPORTS IN 1976), BUT ALSO FOR LNG AND OTHER RAW MATERIALS, WE THINK A SWITCH IS UNLIKELY.

5. ON THE OTHER HAND, PROSPECTS FOR A MAJOR--EVEN A DOUBLING--OF IMPORTS FROM CHINA AROUND 1980 ARE REASONABLY GOOD. THE MAJOR REFINER OF CHINA OIL, IDEMITSU (43 PERCENT OF ALL REFINED CHINESE CRUDE IN 1976) EXPECTS TO OBTAIN, PERHAPS IN MARCH, MITI (MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY) AUTHORIZATION TO ADD 100,000 BARRELS PER DAY CAPACITY TO ITS HYOGO (HIMEJI) REFINERY TO PROCESS CHINESE CRUDE. CONSTRUCTION WOULD TAKE BETWEEN TWO AND THREE YEARS, AND WOULD COST AN ESTIMATED 300-400 MILLION DOLLARS--A MANAGEABLE SUM, ESPECIALLY IF MITI AGREES, AS IS LIKELY, THAT THIS

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ADDITIONAL CAPACITY WOULD BE IN LINE WITH JAPAN'S GENERAL POLICY OF DIVERSIFYING SOURCES.

6. THIS ADDITIONAL CAPACITY COULD HANDLE UP TO 5 MILLION TONS PER YEAR. THIS COULD BRING IMPORTS FROM CHINA TO 13 MILLION TONS BY 1980, ASSUMING AN AVERAGE 6 PERCENT ANNUAL INCREASE. IN THAT YEAR, THE REFINED PORTION OF CHINESE CRUDE WOULD RISE FROM 50 PERCENT TO 70 PERCENT. AGAIN ASSUMING AN OVERALL INCREASE IN TOTAL IMPORTS, PRC SHARE OF TOTAL JAPANESE IMPORTS WOULD RISE FROM THE CURRENT 3 PERCENT TO ABOUT 5 PERCENT.

7. WE FEEL IT IS LIKELY THAT MITI WILL SUPPORT INCREASES OF THIS ORDER. BUT TOTAL ANNUAL IMPORTS FROM CHINA ON THE ORDER OF 25-30 MILLION TONS (REFTEL A) ARE NOT AS LIKELY TO BE ACCEPTED. SUCH AN AMOUNT WOULD MAKE THE PRC THE SUPPLIER OF OVER 10 PERCENT OF JAPANESE CRUDE--A FIGURE WHICH WOULD RAISE POLITICAL QUESTIONS REGARDING TOO MUCH RELIANCE ON A SINGLE SUPPLIER, LET ALONE A

COMMUNIST ONE. (OF COURSE, AT THE PRESENT TIME, FOUR COUNTRIES SUPPLY MORE THAN 10 PERCENT, BUT JAPAN WOULD LIKE TO REDUCE THIS DEPENDENCE IF IT CAN--HENCE THE DIVERSIFICATION EFFORT.)

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C O N F I D E N T I A L SECTION 2 OF 2 TOKYO 1176

8. THERE IS ANOTHER CONSTRAINT ON IMPORTS FROM CHINA, THOUGH FOR A NUMBER OF YEARS IT WILL BE A MINOR ONE. THIS IS A GROWING CONVICTION THAT EFFORTS SHOULD BE MADE TO SHIFT OIL USE AWAY FROM FUELS AND INTO PETROCHEMICAL PRODUCTION. SOME NEW POWER PLANTS ARE BEING DESIGNED TO USE STEAM COAL, AND OTHERS MAY BE RE-CONVERTING BEFORE LONG. SUCH SWITCHES WILL, OF COURSE, REDUCE THE DEMAND FOR ALL OIL FOR POWER PLANTS, THOUGH WHEN THE CUT-BACKS MIGHT TAKE PLACE, AND HOW THE CUTS WOULD BE ALLOCATED, IS NOT KNOWN.

9. A CLEARER PICTURE OF THE PROSPECTS FOR FUTURE IMPORTS OF CHINESE CRUDE SHOULD EMERGE FOLLOWING THE VISIT TO PEKING IN EARLY FEBRUARY OF YOSHIHIRO INAYAMA, CHAIRMAN OF THE BOARD OF THE JAPAN STEEL COMPANY, AND A DIRECTOR OF KOKUSAI SEKIYU (INTERNATIONAL OIL CO.). IT WAS RECENTLY REPORTED THAT KOKUSAI SEKIYU AND THE IMPORTERS CONFERENCE OF CHINESE PETROLEUM--THE TWO SOURCES FOR PRACTICALLY ALL IMPORTS OF CHINESE OIL--HAVE SENT A TEAM TO PEKING TO NEGOTIATE 1977 PRICES AND
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AMOUNTS. KOKUSAI WAS SAID TO WANT 4.3 MILLION TONS AND THE IMPORTERS CONFERENCE 2.4 MILLION TONS, AT A PRICE OF ABOUT DOLS 13 PER BARREL--AN ESTIMATE BASED ON THE USUAL 50 CENTS DIFFERENTIAL FROM INDONESIAN MINSAS, NOW PEGGED AT DOLS 13.55 PER BARREL. INAYAMA IS IN A UNIQUE POSITION, REPRESENTING AS HE DOES THE STEEL INDUSTRY, WHICH WOULD LIKE TO SEE THE CHINESE SELL MORE OIL IN ORDER TO EARN FOREIGN EXCHANGE FOR STEEL IMPORTS, AND THE OIL INDUSTRY, WHICH SEES NO REAL NEED FOR MORE CHINESE CRUDE.

10. AS REGARDS THE ATMOSPHERICS OF THE TALKS REFERRED TO IN REFTEL A, A FOREIGN MINISTRY OFFICIAL (KARITA, CHIEF OF THE RESOURCES DIVISION OF THE ECONOMIC AFFAIRS BUREAU) TOLD US THAT ALTHOUGH IN THE PAST THE CHINESE HAD BEEN RATHER INSISTENT ON SELLING MORE CRUDE TO JAPAN, THEY HAVE LATELY BEEN MUCH MORE RELAXED ABOUT IT. HE SAID THE CHANGE IN ATTITUDE SEEMS TO HAVE OCCURRED ABOUT THE TIME OF THE TONGSHAN EARTHQUAKE, BUT DID NOT SPECULATE ON ANY CAUSAL RELATIONSHIP.
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